

Message Text

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ACTION EUR-12

INFO OCT-01 EA-07 ISO-00 FEA-01 ERDA-05 OES-07 L-03
H-01 AID-05 CIAE-00 EB-08 FRB-03 INR-07 NSAE-00
USIA-06 TRSE-00 XMB-02 OPIC-03 SP-02 LAB-04
SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01 /104 W
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FM AMEMBASSY ROME
TO SECSTATE WASHDC 6371
INFO AMEMBASSY BONN
AMEMBASSY BRUSSELS
AMEMBASSY LONDON
AMEMBASSY MOSCOW
AMEMBASSY PARIS
AMEMBASSY TOKYO
USMISSION NATO
USDOC WASHDC

C O N F I D E N T I A L ROME 12779

OSOECD ALSO FOR EMBASSY; USEEC

E. O. 11652: GDS
TAGS: EFIN, ETRD, EEWT, IT, UR, JA
SUBJ: ITALO-SOVIET TALKS ON CREDIT

REF: ROME 12692

1. DURING CALL ON REITANO (DIRECTOR, MFA OFFICE II - STATE-
CONTROLLED ECONOMY COUNTRIES) ON AUGUST 5, HE TOLD EMBOFFS
THAT GOI HAD INQUIRED ABOUT WEST GERMAN CREDIT TO
USSR AND HAD LEARNED THAT "GENTLEMEN'S AGREEMENT" DOES NOT
APPLY TO IT AS NO GOVERNMENT CREDIT OR GUARANTEE INVOLVED.
HE SAID CREDIT WAS INSURED BY HERMES WHICH IS MADE UP OF
PRIVATE INSTITUTIONS ONLY. HE PROFESSED IGNORANCE OF
PRECISE TERMS OF JAPANESE CREDIT (ESPECIALLY GRACE PERIOD OR
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DELAYED INITIATION OF PAYMENTS) OR WHETHER IT IS REALLY A BLEND
OF TWO SEPARATE CREDITS, EACH OF WHICH, CONSIDERED SEPARATELY,
MIGHT BE IN ACCORDANCE WITH GENTLEMEN'S AGREEMENT (SEE PARA 2,
REFTEL).

2. HE STATED THAT IT MUST BE RECOGNIZED THAT AGREEMENT
HAS BEEN BREACHED BECAUSE TWO COUNTRIES AT LEAST HAD FOUND WAY

AROUND IT. HE EMPHATICALLY ASSERTED SOVIETS SIMPLY WOULD NOT SIGN DOCUMENT WITH 7.75 PERCENT INTEREST IN IT. HE REPEATED SEVERAL TIMES THAT HE WAS NOT OPTIMISTIC ABOUT OUTCOME OF NEGOTIATIONS. ON ONE HAND, ITALY'S NEGOTIATING ADVANTAGE WOULD GROW AS FRENCH AND UK CREDIT LINES ARE USED UP WITHIN NEXT TWO OR THREE MONTHS. ON OTHER HAND, THERE WERE A NUMBER OF ITALIAN PLANT CONSTRUCTION PROJECTS THAT REMAINED INCOMPLETE, CAUSING "UNEMPLOYMENT" AND ECONOMIC LOSSES. THIS SITUATION COULD CONTINUE PERHAPS FOR FEW MORE MONTHS, HE SAID, BUT NOT ENDLESSLY. HE QUOTED MINISTER OF FOREIGN TRADE OSSOLA AS SAYING NO ONE WILL FIGHT ENDLESSLY OVER 0.2 PERCENTAGE POINTS OF INTEREST.

3. WHEN EMBOFF ASKED WHETHER SOVIETS USING GAS SUPPLY TO ITALY AS LEVER IN CREDIT NEGOTIATIONS, REITANO REPLIED THAT TWO PROBLEMS ENTIRELY SEPARATE. GOI HAD TAKEN FIRM POSITION THAT GAS SUPPLY CONTRACT HAD BEEN RECENTLY MODIFIED, IT COULD NOT BE MODIFIED EVERY FIFTEEN DAYS, AND CONTRACT IS A CONTRACT. NEVERTHELESS, SAID SOVIETS HAD SAID THAT IF ITALIANS COULD NOT BE FORTHCOMING ON CREDIT, USSR COULD NOT BE FORTHCOMING ON GAS SUPPLY.

4. REITANO ALSO REFERRED TO INSTITUTIONAL DIFFERENCES AMONG USSR CREDITOR COUNTRIES AND, IN RESPONSE TO QUESTIN, CONCEDED HE DID NOT HAVE CLEAR UNDERSTANDING OF PRECISE COMMITMENTS EACH COUNTRY HAD MADE IN FORMING GENTLEMEN'S AGREEMENT.

5. IN RESPONSE TO QUESTION ON NEWS REPORT THAT OSSOLA PLANNING TO CONFIDENTIAL

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VISIT MOSCOW IN SEPTEMBER, REITANO SAID OSSOLA COULD NOT GET INVOLVED IN CREDIT NEGOTIATIONS UNTIL GROUNDWORK DONE. IT WAS SOVIETS TURN TO COME TO ROME. (DURING EARLIER CONVERSATION BETWEEN EMBOFF AND SOVIET COMMERCIAL OFFICER, LATTER STATED THAT USSR DEL EXPECTED IN ROME IN OCTOBER.)

6. EMBOFF ASKED SEVERAL TIMES ABOUT POSSIBLE CONSULTATION BETWEEN PARTICIPANTS IN GENTLEMEN'S AGREEMENT IN ORDER TO RESOLVE DOUBTS ABOUT POSSIBLE BREACHES AND/OR RECONFIRM AGREEMENT. REITANO SHOWED NO INTEREST IN FOLLOWING SUCH A COURSE.

6. COMMENT. EMBOFFS CAME AWAY FROM THIS MEETING WITH IMPRESSION THAT GOI PREPARING GROUNDS FOR FINDING ITALIAN WAY AROUND GENTLEMEN'S AGREEMENT. PRESUMABLY, ON BASIS INFO CITED PARA 2 REFTTEL, REITANO WELL AWARE THAT JAPANESE, BY OFFERING TWO SEPARATE CREDITS, MAY NOT HAVE BREACHED CONSENSUS, YET HE SEEMED INTENT ON CLASSIFYING JAPANESE AND WEST GERMANS AS GUILTY UNTIL PROVEN INNOCENT.

7. ACTION REQUESTED: DEPARTMENT'S GUIDANCE FOR FURTHER CONTACTS WITH GOI ON THIS MATTER AND DETAILED INFORMATION ON COMMITMENTS MADE BY ITALY, JAPAN, FRG, FRANCE, AND UK WITH RESPECT TO GENTLEMEN'S AGREEMENT. EMBASSY WOULD ALSO BE INTERESTED IN KNOWING

WHETHER ANY ATTEMPT TO DISCUSS USSR CREDIT STONEWALLING IN OECD OR
OTHER MULTILATERAL FORUM IS PLANNED.HOLMES

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